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SUBJECT: CHONGQING SCHOLARS DISCUSS CITY'S DEVELOPMENT CHALLENGES

REF: A) 06 CHENGDU 1161; B) 06 CHENGDU 1022; C) 06 CHENGDU 1174; D) CHENGDU 36

CHENGDU 00000129 001.2 OF 002

¶1. (SBU) Summary. In a day of meetings with Chongqing academics, Embassy Beijing Econ M/C and Congenoff heard about some of the city's most pressing issues: the aftereffects of Three Gorges Dam construction, industrial reform, the plight of farmers and migrant workers. In addition, the city serves as a pilot for the concept of "urban-rural integration." The depth of the city's problems seems to have attracted extensive official attention at least, although the gap between policy and practice remains as large as ever. End summary.

THREE GORGES: BUILDING IT WAS JUST THE BEGINNING

¶2. (SBU) In an unusually frank presentation, Chongqing University Academic Commission Director Nei Hengshun (who said he had spent 16 years in Three Gorges-related research) described the social effects of Three Gorges Dam construction as "a long-term problem" that will take "many years to solve." Noting that many ancient cities had been flooded by the reservoir, he said that Chongqing was unprepared for the displacement of such a large number of poorly-educated farmers, and that the overall effect had been to increase even further China's rich-poor gap. Said Nei, "If this problem (of displaced farmers) is not solved, it will affect social stability."

¶3. (SBU) Although Nei stated at one point that the engineering behind the dam was the "pride of China," he went on to decry its effects on the environment. According to Nei, the dam itself is located in an area of unique geography, with granite outcrops in an area largely composed of limestone. While the granite has the effect of stabilizing the dam, the flooding of the reservoir in an area of highly porous soil will change water levels, and will ultimately result in an increase in landslides, he claimed. Even more serious, he said, was the problem of "seasonal reversal": before the dam was constructed, the area downstream from the dam was relatively dry in most seasons except for the periods of summer floods. However, the construction of the dam will result in increases in water flows during the winter and decreases in the summer, leading not only to more summer droughts but also to profound changes in the ecology of the entire Yangtze River area.

¶4. (SBU) Turning briefly to the subject of the South-to North Water Diversion Project, Nei said that construction of the

western line had become "improbable" due in large part to the concerted opposition of Southwest China academics. Nei mentioned in particular the book "Nine Questions Concerning the Western Line Project," which he said had attracted "strong attention" from the Central Government (ref A). Asked about the possibility of a line linking the Yellow River with Tibetan water sources, Nei said that such a project was "impossible."

INDUSTRIAL REFORM STILL A WORK IN PROCESS

15. (SBU) For Chongqing University Sustainable Economic Development Research Institute (SEDRI) Director Chen Deming, the restructuring of Chongqing's industrial base has become an "unavoidable challenge." Two of the most urgent priorities are (1) an increase in the production of motorcycles and automobiles (he cited the Changan-Ford joint venture specifically) as a stimulus to the development of other businesses in Chongqing, and (2) the movement of old-line industries such as iron and steel production from the city center to outlying areas, and the promotion of the chemical industry, aluminum production, clothing industry, light manufacturing, and high-tech firms as substitutes. He cited the Chongqing Iron and Steel Company as exemplifying the city's antiquated and inefficient "production-based economy," and said that due to environmental protection concerns it would be moved to Changshou (about 80 kilometers from downtown Chongqing). Chen foresaw a gradual decline in the percent of the city's GDP coming from industrial production, and a concomitant rise in the service sector.

MIGRANT FARMERS AND URBAN-RURAL INTEGRATION

CHENGDU 00000129 002.2 OF 002

16. (SBU) Chongqing Industrial and Business University President Wang Chongju outlined the city's strategy for "urban-rural integration," which he said was driven by Central Government directives. Claiming that Chongqing's urbanization rate (the percentage of the population living in urban areas) was now 45 percent, he saw the rate increasing to 55 percent over the next ten years, and eventually peaking at 60 percent.

17. (SBU) The conceptual model used by Chongqing's planners is called "one circle and two wings." The circle refers to those areas within a one-hour drive of the city's center, covering 23 districts and counties, and accounting for 78 percent of Chongqing's GDP. Wang foresaw per capita GDP in the "circle area" rising to USD 8000 by the year 2020.

18. (SBU) The two wings are swaths of especially poor rural territory flanking the urban core. The first "wing" consists of eight counties centered on Wanzhou in the Three Gorges Dam reservoir area. The second "wing" is centered on Qianjiang in southeastern Chongqing, an area with heavy minority populations and per capita incomes only one-eighth to one-sixth of those in Chongqing's urban core. The residents of those two "wings" will be urged to move to urban areas as part of the urban-rural integration process.

19. (SBU) Another important part of urban-rural integration will be hukou reform, said Wang. Claiming that rural hukous had already been abolished in some areas, Wang acknowledged in response to Econ M/C's question that many farmers and migrant workers still faced major challenges in obtaining social benefits such as education and medical care. However, he claimed that the hukou problem was "less and less important," since school enrollment fees had decreased or been eliminated altogether and the health insurance system (especially the Rural Cooperative Medical System) had improved. He said that the

municipal government planned to offer more vocational training to migrant workers, and pointed to the construction and light processing industries as well as to the service sector (especially household servant and restaurant industries) as providing the bulk of employment opportunities.

COMMENT

¶10. (SBU) As Chongqing prepares to celebrate its tenth anniversary as a centrally-administered municipality, Central Government officials may see the city as something of a test bed for national economic and social strategies, as in the case of the "urban-rural integration" project. After all, Chongqing is in many respects a microcosm of the myriad economic and social problems afflicting inland China (refs B-D): during an after-dinner stroll around Chongqing's brightly-lit and attractive Jiefangbei area, Econ M/C and Congenoff were set upon by numerous beggars and pimps. And just outside one shopping mall in the same area, police had massed in an apparent attempt to stave off unrest in connection with the eviction of a tenant (this was shortly after the resolution of the "Nail House" incident between a recalcitrant property holder and a construction firm). How will the best efforts of policymakers and academics all turn out? Watch this space.

¶11. (U) This cable has been cleared by Embassy Beijing Economic Minister-Counselor.
BOUGHNER